Liquidity Coverage Ratio: March 31, 2021

The essential role of banks is to attract savings (deposits) and lend it to others. The management of this activity generates a benefit but also entails that the bank holds necessary liquidity to meet the cash needs of those who have deposited their money with the bank.

To mitigate this risk, the Basel committee has designed the Liquidity Coverage Ratio to ensure that financial institutions have sufficient liquidity to meet their short-term obligations, absorb shocks arising from financial and economic stress, improve risk management and governance, and strengthen banks' transparency and disclosures. The objective of the Liquidity Coverage Ratio (LCR) is aimed at measuring and promoting short-term resilience of banks to potential liquidity disruptions by ensuring maintenance of sufficient unencumbered high quality liquid assets (HQLAs) to survive net cash outflows over next 30 days under stress conditions.

The LCR is the percentage resulting from dividing the bank's stock of unencumbered high-quality liquid assets by the estimated total net cash outflows over a 30 calendar day stress scenario.

The HQLA, follow the RBI defined set of eligibility criteria that considers fundamental and market-related characteristics, and the ability to generate liquidity from such assets on a timely basis during a period of stress. The portfolio of HQLA is centrally managed by the Bank Treasury, to be well above the regulatory requirements, while continuously assessing risks to market funding conditions and its liquidity position and taking actions to manage the size of the liquidity pool as appropriate.

High quality liquid assets (HQLA) under LCR are divided into two parts:

- Level 1: comprises primarily of Cash, excess CRR balances, investments in SLR in excess of the regulatory requirement and a portion of mandatory SLR as permitted by RBI (under MSF and FALLCR); and
- Level 2: comprises investments in highly rated non-financial corporate bonds and listed equity investments, considered at prescribed haircuts.

The calculation of net cash outflow incorporates prescribed standardized outflow and inflow rates. Cash Outflow / Inflow for the next 30 days is reckoned by applying the run-off factors / weights – as prescribed by RBI, on various liability & asset pools of the Bank – both on balance sheet and off balance sheet items. The run-off factors are stipulated basis customer categories and nature of liability / asset. Total net cash outflows are defined as the total expected cash outflows minus total expected cash inflows (up to an aggregate cap of 75% of total expected cash outflows)..

The RBI had reduced the LCR stipulations for Bank vide RBI notification dated 17 April, 2020 to 80% on an ongoing basis, increased to 90% w.e.f. Oct 1, 2020 and to be 100% w.e.f. Apr 1, 2021.

The daily calculation of LCR is evaluated against the minimum and in the event that it falls below the threshold on any given business day, the Bank is required to notify the Reserve Bank of India (RBI) and prepare LCR restoration plans for scrutiny by the Department of Supervision, RBI.

Kotak Mahindra Bank Limited (KMBL) has implemented LCR framework for both Standalone Bank as well as for the Group on a consolidated basis since January, 2016. KMBL manages LCR to be above the regulatory threshold - reflecting our liquidity risk tolerance and takes into account business mix, asset composition and funding capabilities.

The Bank maintains LCR as per regulatory stipulations at its International branches at GIFT City & DIFC Dubai in accordance with extant regulations.

GIFT City Branch: The RBI through its notification dated 1 April, 2015, as amended, permitted both private and public sector banks to set up banking units in International Financial Services Centres (IFSC), provided that they are eligible to deal in foreign exchange and have minimum capital of USD 20 million or equivalent in foreign currency. In December 2019, Parliament passed a bill to set up a unified authority for regulating all financial activities at IFSCs in the country. The International Financial Services Centres Authority (IFSCA) which is the regulator of IFSCs including Gift City has now notified regulations applicable for banking and investment activities in the International Financial Services Centres. IBUs must maintain LCR as applicable to Indian banks on a stand-alone basis.

DIFC Branch: The Bank has a Category 1 Authorized branch, located at Dubai International Finance Centre, regulated by Dubai Financial Services Authority [DFSA]. As per extant DFSA regulations, the branch is required to maintain LCR on a standalone basis – with stipulated minimum threshold of 100%.

The daily average LCR for the quarter ended March 31, 2021 at consolidated level was at 177.67% which is well above the regulatory threshold of 90%. The following table sets out average LCR of the Bank (Consolidated) for the quarter ended March 31, 2021 and December 31, 2020.

(Amt in INR million)

			Average Q4 2020-2021		Average Q3 2020-2021	
High Quality Liquid Assets						
1	Total High Quality Liquid Assets (HQLA)			991,903		1,023,581
Cash Outflows						
2	Retail deposits and deposits from small business customers, of which:					
	(i)	Stable deposits	586,946	29,347	580,713	29,036
	(ii)	Less stable deposits	1,197,019	119,702	1,197,179	119,718
3	Unsecured wholesale funding, of which :					
	(i)	Operational deposits (all counterparties)				
	(ii)	Non-operational deposits (all counterparties)	847,927	485,227	729,149	411,708
	(iii)	Unsecured debt	31,145	30,742	38,440	37,790
4	Secured wholesale funding			11,518		8,267
5	Additional requirements, of which					
	(i)	Outflows related to derivative exposures and other collateral requirements	153,600	152,890	122,091	120,563
	(ii)	Outflows related to loss of funding on debt products				
	(iii)	Credit and liquidity facilities	18,476	1,888	19,782	1,966
6	Other contractual funding obligations		55,265	55,265	40,852	40,852
7	Other contingent funding obligations		1,159,243	50,752	1,167,930	51,467
8	**Total Cash Outflows**			**937,330**		**821,367**
Cash Inflows						
9	Secured lending (e.g. reverse repos)		289,233	0	361,122	0
10	Inflows from fully performing exposures*		429,831	367,255	335,822	275,679
11	Other cash inflows		23,558	11,779	20,786	10,393
12	**Total Cash Inflows**		**742,622**	**379,034**	**717,731**	**286,072**

		Average Q4 2020-2021		Average Q3 2020-2021	
13	**TOTAL HQLA**		**991,903**		**1,023,581**
14	**Total Net Cash Outflows**		**558,296**		**535,295**
15	**Liquidity Coverage Ratio (%)**		**177.67%**		**191.22%**

*Incl. Derivative inflows